

AR31

ANNUAL REPORT

1978

Print
BOMAC BATTEN LIMITED

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:30 a.m., Thursday, April 12, 1979, in the Tudor Room No. 8 of the Royal York Hotel, Toronto, Ontario.

BOMAC BATTEN LIMITED DIRECTORS AND OFFICERS

DIRECTORS

Reginald A. Batten
George C. Gardiner
Douglas R. Keedwell, C.A.
Charles E. McNellen
Charles H. McNellen
J. Harold Mitchell
Douglas R. Steadman
Robert M. Sutherland, Q.C.

OFFICERS

Charles H. McNellen
Chairman of the Board
Charles E. McNellen
Vice-Chairman of the Board
George C. Gardiner
President
Douglas R. Keedwell, C.A.
Vice-President and Secretary
William J. Brown
Treasurer

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto

AUDITORS

Deloitte, Haskins & Sells

BANKERS

The Royal Bank of Canada

SOLICITORS

Fasken & Calvin

HEAD OFFICE

240 Richmond Street West, Toronto, Ontario M5V 1W1

REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the Company's Consolidated Financial Statements as of December 31, 1978 along with the Auditors' Report to the Shareholders.

Consolidated sales for the year amounted to \$12,958,472 from \$12,647,820, an increase of 2.4% over the previous year. While sales of the film operations declined marginally, sales of the printing plate operations continued to improve despite the disposal of a non-profitable operation in March of 1978.

Consolidated earnings from operations before income taxes and extraordinary items for the year in review amounted to \$759,532 as compared to \$301,433 the previous year and consolidated earnings after taxes and extraordinary items \$622,053 compared to \$369,360 in 1977.

Earnings per class A share were \$2.34 as compared to \$1.50 in 1977 and per common share \$1.74 compared to 90¢ for the previous year.

The six cumulative dividends on the class A shares in arrears at the end of 1977 were reduced to four during 1978 upon approval of the Board of Directors for payment of two additional class A share quarterly dividends as well as the regular dividends on the preferred and class A shares. This action was taken due to the improved earnings and working capital position of the Company.

The Board of Directors, at a meeting today, approved three quarterly dividends on the class A shares payable April 1, 1979; therefore, there are now two quarterly dividends in arrears.

Capital expenditures amounted to \$459,332 with the largest item being an additional electronic colour scanner for the production of colour film separations by our offset film and plate department. This colour scanner costing approximately \$300,000 will increase our capacity and improve efficiency by reducing man hours in filling our customers' growing requirements for offset colour separations. The balance consisted of replacements in our continuing program to provide our plant with the most modern production equipment available.

Earnings for 1978 from the printing plate operations reflect the results of the cost control program including the elimination of non-profitable plants and departments over the past three

years and as a result, these operations are the major contributors to the Company's earnings.

Despite a very disappointing first six months of 1978 the film operations recovered significantly in the last half of the year as a result of reorganization of these operations. The motion picture production operations, particularly, reversed the adverse trend in June, recovered their losses of the first six months and finished the year with a modest profit despite a very competitive market.

There is a great deal of uncertainty in our economy apparent in both the business sector and the public at large due to the unemployment problem, high interest rates and the threat of further increases in the rate of inflation aggravated by the devaluation of our dollar. As a result of this uncertainty the market for our products is highly competitive and subject to extreme fluctuations in the amount of available business. However, we are optimistic for the future earnings of the Company given a more stable business climate and a return of confidence in the Canadian economy.

As we have recorded in previous reports to the shareholders, we have not been subject to legal restraint under the anti-inflation legislation with respect to prices and wages. Our Company continued its policy throughout 1978 of complying with the guidelines of this program as to selling prices and wages and an industry-wide collective agreement with the cooperation of the union was negotiated within the prescribed limits of this legislation.

On behalf of the Board of Directors, we are pleased to record our appreciation of the loyalty and efficiency of our employees who have contributed greatly to the improved operations of our Company and enabled us to provide our customers with the same high standard of service and quality with which our name has been synonymous for many years.

On behalf of the Board,



G. Hobday
President

March 9, 1979

FIVE YEAR FINANCIAL SUMMARY

	1978	1977	1976	1975	1974
CURRENT POSITION					
Current assets	\$ 3,890,605	\$ 3,004,765	\$ 3,498,297	\$ 3,496,839	\$ 3,976,713
Current liabilities	\$ 1,863,069	\$ 1,372,393	\$ 2,327,376	\$ 2,024,778	\$ 2,222,784
Working capital	\$ 2,027,536	\$ 1,632,372	\$ 1,170,921	\$ 1,472,061	\$ 1,753,929
Current ratio	2.1	2.1	1.5	1.7	1.8
PLANTS AND PROPERTIES					
Investment in plants and properties	\$ 8,070,669	\$ 7,876,993	\$ 7,664,123	\$ 8,625,879	\$ 8,883,735
Accumulated depreciation	\$ 5,172,086	\$ 5,134,381	\$ 4,895,932	\$ 5,853,535	\$ 5,893,240
Provision for depreciation	\$ 283,379	\$ 298,800	\$ 270,604	\$ 269,186	\$ 313,875
Expenditures	\$ 459,332	\$ 280,827	\$ 354,059	\$ 392,600	\$ 212,334
SHAREHOLDERS' EQUITY					
Preferred stock	\$ 246,800	\$ 279,800	\$ 301,000	\$ 301,000	\$ 303,500
Class A and common stock	\$ 565,313	\$ 565,313	\$ 565,313	\$ 565,313	\$ 565,313
Retained earnings	\$ 4,061,794	\$ 3,552,916	\$ 3,313,837	\$ 3,301,987	\$ 3,461,809
Class A and common equity	\$ 4,627,107	\$ 4,118,229	\$ 3,879,150	\$ 3,867,300	\$ 4,027,122
Per share (*before dividend arrears)	\$ 15.17*	\$ 13.50*	\$ 12.72*	\$ 12.68*	\$ 13.20
SALES					
	\$12,958,472	\$12,647,820	\$12,882,593	\$12,691,906	\$12,966,399
EARNINGS					
Earnings (loss) from operations	\$ 449,132	\$ 155,242	\$ (56,148)	\$ (242,159)	\$ (56,635)
Per class A share	\$ 1.77	\$.80	\$.11	(.50)	(.07)
Per common share	\$ 1.17	\$.20	(.49)	(1.10)	(.37)
Earnings (loss) for the year	\$ 622,053	\$ 369,360	\$ (18,052)	\$ (137,318)	\$ 51,870
Per preferred share—available	\$ 252.04	\$ 132.01	\$ (5.99)	\$ (45.62)	\$ 17.09
—distributed	\$ 6.00	\$ 16.50	\$ —	\$ 1.50	\$ 6.00
Per class A share	\$ 2.34	\$ 1.50	\$.23	(.16)	\$.29
Per common share	\$ 1.74	\$.90	(.37)	(\$.76)	(.01)

Consolidated Balance S

(with prior year's

ASSETS	1978	1977
CURRENT		
Cash and term deposits	\$ 410,371	\$ 160,126
Accounts receivable	2,956,688	2,181,804
Marketable securities—at cost which approximates market value	9,750	9,750
Mortgage and note receivable—current portion	31,694	28,327
Income taxes recoverable	—	47,213
Inventories	444,291	528,043
Prepaid expenses	37,811	49,499
	3,890,605	3,004,765
INVESTMENTS		
Mortgages due through 1984	143,915	137,609
Notes receivable due through 1981	50,000	75,000
Cash surrender value of life insurance less loans	51,772	35,985
Other investments	35,901	44,671
	281,588	293,266
FIXED		
Plants and properties	8,070,669	7,876,993
Less accumulated depreciation	5,172,086	5,134,381
	2,898,583	2,742,612
	\$7,070,776	\$6,040,643

Approved by the Board:

Geo. C. Gardiner, *Director*R. M. Sutherland, *Director*

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as at December 31, 1978

(\$ for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY	1978	1977
CURRENT		
Accounts payable and accrued	\$1,725,227	\$1,305,246
Long-term debt—current portion (Note 2)	25,000	25,000
Dividends payable	41,652	42,147
Income taxes	71,190	—
	1,863,069	1,372,393
DEFERRED INCOME TAXES	133,800	45,221
LONG-TERM DEBT (Note 2)	200,000	225,000
SHAREHOLDERS' EQUITY (Notes 3 and 4)		
Share capital		
Authorized		
10,000 6% cumulative redeemable preferred shares with a par value of \$100 each and callable at \$104		
200,000 60¢ cumulative participating class A shares and 200,000 common shares, both without nominal or par value		
Issued, outstanding and fully paid		
2,468 preferred shares (1977—2,798 shares)	246,800	279,800
126,500 class A shares }	565,313	565,313
178,500 common shares }	812,113	845,113
Retained earnings	4,061,794	3,552,916
	4,873,907	4,398,029
	\$7,070,776	\$6,040,643

See notes to consolidated financial statements

BOMAC BATTEN LIMITED

Consolidated Statement of Retained Earnings for the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Balance, beginning of year.....	\$ 3,552,916	\$ 3,313,837
Earnings for the year	622,053	369,360
Discount on purchase of preferred shares	16,120	12,268
	4,191,089	3,695,465
Dividends		
Preferred shares	15,445	47,674
Class A shares	113,850	94,875
	129,295	142,549
Balance, end of year.....	\$ 4,061,794	\$ 3,552,916

Consolidated Statement of Earnings for the year ended December 31, 1978 (with prior year's figures for comparison)

	1978	1977
Sales.....	\$12,958,472	\$12,647,820
Earnings from operations before taking into account the following items.....	\$ 1,041,949	\$ 642,223
Deduct		
Depreciation	283,379	298,800
Interest including long-term debt interest \$18,742 (1977 - \$66,705).....	36,509	113,418
	319,888	412,218
	722,061	230,004
Add		
Investment and other income	37,471	71,429
Earnings from operations before income taxes	759,532	301,433
Income taxes	310,400	146,191
Earnings from operations	449,132	155,242
Income tax reductions resulting from prior years' losses	172,921	143,840
Life insurance proceeds	-	70,277
Earnings for the year (Note 5).....	\$ 622,053	\$ 369,360

See notes to consolidated financial statements

Consolidated Statement of Changes In Financial Position
for the year ended December 31, 1978

(with prior year's figures for comparison)

	1978	1977
SOURCE OF WORKING CAPITAL		
Earnings from operations	\$ 449,132	\$ 155,242
Depreciation	283,379	298,800
Deferred income taxes	88,579	15,500
From operations	821,090	469,542
Decrease in investments	11,678	567,492
Income tax reductions resulting from prior years' losses	172,921	143,840
Life insurance proceeds	—	70,277
	1,005,689	1,251,153
APPLICATION OF WORKING CAPITAL		
Increase in plants and properties—net	439,350	273,220
Decrease in long-term debt	25,000	365,000
Dividends	129,295	142,549
Purchase of preferred shares	16,880	8,932
	610,525	789,702
Increase in working capital for the year	395,164	461,450
Working capital beginning of year	1,632,372	1,170,921
Working capital end of year	\$2,027,536	\$1,632,372

See notes to consolidated financial statements

AUDITORS' REPORT

To the Shareholders of

BOMAC BATTEN LIMITED.

We have examined the consolidated balance sheet of Bomac Batten Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 8, 1979

DELOITTE, HASKINS & SELLS
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The financial statements consolidate the accounts of the Company and its subsidiaries Filpro Limited, Rabko Television Productions Co. Limited, Medallion Film Laboratories Limited, Arco Advertisers Revisions Limited, Fairbairn Studio Limited and Bomac Graphics Limited, all of which are wholly-owned. Bomac Montreal Limited was wound up effective December 31, 1978.

Inventories

Inventories consist of materials, supplies and work in process and are valued at the lower of cost and net realizable value.

Investments

Investments are carried at cost with the exception of shares in an associated company, which are accounted for on an equity basis.

Plants and properties

Plants and properties are stated at cost. Depreciation and amortization of these assets are based on their estimated useful lives using straight-line and declining-balance methods.

Income taxes

The Company accounts for income taxes using the tax allocation basis. The major timing difference which creates deferred income taxes is the result of differences between depreciation recorded and capital cost allowances claimed for income tax purposes.

Earnings per share

The Company calculates earnings per class A and common share, after giving effect to the cumulative preferred dividend entitlement, on the following basis:

- (a) An amount equal to the class A dividend entitlement for the period is allocated to the class A shares
- (b) An amount equal to the dividend paid on the common shares, to a limit of the class A dividend entitlement for the period, is allocated to the common shares
- (c) The remaining earnings (or the resultant deficiency in the event that the foregoing entitlements exceed the earnings for the period) are allocated on a share for share basis between the class A and common shares

2. LONG-TERM DEBT

	1978	1977
6½% mortgage payable in quarterly instalments of \$6,250 with balance due in 1981	\$ 75,000	\$ 100,000
8¾% mortgage due in 1983	150,000	150,000
	225,000	250,000
Less current portion	25,000	25,000
	<u>\$ 200,000</u>	<u>\$ 225,000</u>

3. PURCHASE OF PREFERRED SHARES

The Company has purchased 1,532 preferred shares for cancellation in accordance with the terms of issue including 330 shares purchased during the year. As the result of such purchases retained earnings in the amount of \$153,200 equivalent to the par value of the shares cancelled are not available for distribution.

4. DIVIDENDS

Four quarterly dividends totalling \$75,900 are in arrears on the class A shares.

5. EARNINGS PER SHARE

	Earnings From Operations		Earnings For the Year	
	1978	1977	1978	1977
Earnings per class A share	\$ 1.77	\$ 80	\$ 2.34	\$ 1.50
Earnings per common share	\$ 1.17	\$ 20	\$ 1.74	\$.90

6. SUBSEQUENT EVENTS

A subsidiary has accepted an offer for the sale of real estate located in Montreal no longer required for operations at a price in excess of net book value. The offer is for closing in March 1979 and is conditional upon the purchaser being able to obtain financing at reasonable terms.

7. INFORMATION RE DIRECTORS AND OFFICERS

- (a) During the year the Company had eight directors whose aggregate remuneration as directors amounted to \$800 (1977—\$900)
- (b) During the year the Company had five officers and a past officer whose aggregate remuneration amounted to \$237,032 (1977—\$231,259) of which \$175,860 was paid by the Company and \$61,172 by subsidiaries.
- (c) During the year four officers and a past officer were also directors.

**BOMAC
BATTEN**

LIMITED